

SOCIAL INVESTMENT FUND

(GU-0071)

EXECUTIVE SUMMARY

BORROWER: Government of Guatemala

EXECUTING AGENCY: Fondo de Inversión Social [Social Investment Fund]
(FIS)

AMOUNT AND SOURCE: IDB (OC/IFF): US\$42.3 million
Local counterpart funding: US\$ 4.7 million
Total: US\$47.0 million

FINANCIAL Amortization period: 30 years
TERMS AND Commitment period: 3 years
CONDITIONS: Disbursement period: 4 years
Interest rate: variable
Grace period: 4 years
Inspection and supervision: 1%
Credit fee: 0.75%

OBJECTIVES: The objective of this IDB/FIS program is to improve living conditions among Guatemala's poor rural population. To achieve that objective, the program will pursue two specific aims: (i) encourage community-based initiatives geared to forming sustainable civil society organizations, with an eye to enhancing organizational capacity for production-related activities and basic social and economic services, and (ii) provide additional support by means of socially oriented investments in community-based organizations, in order to enable them to make broad-based and lasting improvements in local living conditions.

DESCRIPTION: The program will fund investments in small-scale projects geared toward improving the socioeconomic situation of the country's poor rural population. Funding will also be provided for associated costs and for institutional strengthening (mainly in the form of technical cooperation). The technical-cooperation activities for community empowerment, it should be noted, will play a significant role in ensuring the operation's success (see Annex I).

This program will afford support for a government-backed initiative that has been launched by the FIS's new management and is aimed at empowering poor

communities, to enable them to improve local living conditions on a comprehensive and permanent basis. So far, FIS programs have strengthened community organizations by having them take part in the selection, design, and implementation of small-scale FIS-funded projects. The FIS is now building on this base to help community organizations play a more central role in managing FIS-funded projects and develop their capacity to independently manage their own production-oriented activities and basic social and economic services.

**ENVIRONMENTAL
CLASSIFICATION:**

The Environment Committee classified this as a Category III operation at its meeting of June 11, 1990, and subsequently reviewed and confirmed that classification on December 5, 1995. The environmental report was approved by the Committee on February 27, 1996.

BENEFITS:

This program will help to: (i) ensure that the basic needs of Guatemala's poor and extremely poor rural population are better met; (ii) strengthen the capacity of poor communities to manage their own productive activities and basic social and economic services; (iii) protect and upgrade the environment; and (iv) generate community-based initiatives aimed at national reconciliation. Since indigenous groups make up more than one half the country's rural population (and bearing in mind that almost all of the rural indigenous population lives in poverty) and since indigenous groups are very involved in FIS activities (see paragraph 1.22), the project is expected to yield significant benefits for these groups. Program benefits will also accrue to women and children (see paragraph 4.9).

RISKS:

Community empowerment component. Although the basic methodology that will be used for technical cooperation in this area (see Annex I) has been tested in Guatemala and elsewhere, the FIS itself has little experience with this approach. However, it has broad experience working with community-based organizations, mainly in the design and implementation of the investments it finances. With an eye to strengthening the FIS's ability to help communities shape their own development, the project team expects to work closely with the FIS during the technical cooperation.

Overlapping of social funds. Guatemala's social funds were set up by the government mainly for the purpose of providing a rapid response to the country's most pressing social needs. Several of

these funds, however, have similar programs and overlapping target populations. The government has expressed concern with this duplication of efforts between social funds and has announced that it intends to define the roles of these funds – for both the present and the future – as part of its overall social policy. A framework for coordinating the funds' work was set up recently within the Office of the Vice President and includes a mandate to review these roles and make recommendations on how the funds should be restructured, if necessary.

Weaknesses in the public sector. As a rule, the ministries and line agencies that have worked the most with the FIS have been the ones with the least funds available for financing FIS programs. Even with the interagency coordination arrangements under the FIS (see paragraph 3.22), the ministries have not been able to formulate comprehensive policies or guidelines. As a result, there is only limited information available on sector plans and no clear guideposts for the State's role in the FIS's target sectors. With a view to remedying this situation, the IDB/FIS program proposed herein includes technical cooperation to strengthen the ministries' policy-setting function (see paragraph 2.18). The Bank, aware of the importance of addressing weaknesses in the public sector, currently has one program under way (in the health sector) and three in preparation (one for modernization of the State and two in the education sector) that are looking into ways of strengthening the public sector or transferring some of its functions to the private sector.

**THE BANK'S
COUNTRY AND
SECTOR STRATEGY:**

The Bank's strategy for Guatemala for the period 1996-1998, as set out in the country paper, focuses on four areas: (i) inclusion of the poor, indigenous, and rural populations in the process of sustained development, (ii) expansion and improvement of social services, (iii) modernization of the State, and (iv) development and growth of private production sectors. The Bank's support for the Social Investment Fund is fully in line with this strategy, especially as a means of including the country's poor, indigenous, and rural populations in the process of sustained development.

**SPECIAL
CONTRACTUAL
CONDITIONS:**

Conditions precedent to the first disbursement

Signature of an agreement whereby the government will transfer the loan proceeds and the local counterpart contribution to the FIS (see paragraph 3.1); and

Updating of the FIS's operations manual as agreed with the Bank, including the procedures for procuring goods and services for amounts below the thresholds set for international competitive bidding as established in Annex B to the loan contract (see paragraphs 3.17 through 3.21).

Conditions precedent to the first disbursement under the community empowerment component (technical cooperation)

Presentation of evidence that the coordination unit has been set up and is operating (see Annex I, page 7);

Presentation of the plan of operations for the first year of program execution (see Annex I, page 7); and

Presentation of the operations manual for the technical cooperation (see Annex I, page 7).

Other conditions

The loan contract is also to include special conditions on, *inter alia*, reporting requirements (see paragraph 3.29), external auditing (paragraph 3.28), operating procedures (paragraphs 3.26 and 3.27), and supervision (paragraphs 3.24 and 3.25).

**EXCEPTIONS TO
BANK POLICY:**

Direct contracting will be allowed in the amount of up to US\$50,000 per project for construction work and the purchase of project-related services, based on FIS-simulated prices for prototype investments (see paragraph 3.18). This procurement method is justified in view of: (i) the small size of the investments, and (ii) the urgent need to provide support to poor communities in hard-to-reach areas where there are few project contractors available.

**POVERTY-
TARGETING:**

By geographically targeting poor beneficiaries, this program holds to the high priority assigned to poverty reduction under the Eighth Replenishment. In keeping with the FIS's charter, which restricts its investment activities to poor or extremely poor rural populations (paragraph 1.8), the program specifically targets Guatemala's poor rural population (paragraphs 3.12-3.15).

**APPROVAL
PROCEDURE:**

Pursuant to Part III, Section 2(a), of the Regulations of the Board of Executive Directors, this operation must be submitted to the Committee of the Whole for consideration.

I. FRAME OF REFERENCE

A. Introduction

- 1.1 The new administration that took office in Guatemala in January 1996 has organized the government's work plan around three focal points: (i) peace and national reconciliation, (ii) comprehensive human development, and (iii) investment in production structures as a means of creating jobs and boosting output. ^{1/} The plan of action assigns a pivotal role to programs involving small-scale investments and broad-based community participation aimed at raising the standard of living of the poor segments of the population.

B. Socioeconomic framework

- 1.2 Following on a 20% drop during the early 1980s, Guatemala's per capita GDP began to show signs of modest recovery in 1987. As the economic situation worsened, however, real wages dropped, income distribution became progressively more uneven, and poverty became further entrenched. In 1989, the income level of the highest quintile was 30 times that of the lowest quintile; this was the broadest gap registered anywhere in Central America (including Panama). The income difference between the highest and lowest quintiles in Mexico, Nicaragua, the Dominican Republic, and Costa Rica is in each case less than half that of Guatemala's.
- 1.3 Guatemala's social indicators, too, are among the lowest in the Western Hemisphere. Illiteracy among adults over 15 stands at 45% (compared with 15% overall for Latin America and the Caribbean); infant mortality is 46.4 per 1,000 live births (compared with 43 per 1,000 for the region overall); primary school net enrollment has been calculated at 68% (compared with the regional average of 89%); and 40% of the population lacks access to drinking water (compared with 20% for the region overall).

^{1/} As presented in the 1996-2000 Action Plan framed by the government of President Álvaro Enrique Arzú Irigoyen.

- 1.4 This situation is a reflection of the country's low levels of social spending. ^{2/} Expressed as a percentage of GDP, Guatemala's social expenditure amounts to less than one half of the levels reported by Belize, Costa Rica, Nicaragua, and Panama. Furthermore, the benefits of this spending accrue mainly to non-needy groups living in the metropolitan capital area: (i) the University of San Carlos receives a constitutionally-mandated apportionment of 5% from the Treasury's ordinary revenue; and (ii) nearly 70% of health spending goes toward curative care and is focused in two hospitals located in Guatemala City. In the country's rural areas, primary education and preventive health care are seriously deficient.
- 1.5 A full 75.2% of the country's population lives in poverty, with 57.9% living in conditions of extreme poverty. Poverty is most acute in rural areas and among indigenous communities. Approximately 60% of the Guatemalan population lives in rural areas, with 85.7% of that population classified as poor - compared with 57.2% in urban areas. Indigenous groups comprise some 40% of the country's population. Guatemala is home to at least 23 different ethnic groups, who speak Garifuna, Xinca, and some 21 languages of the Maya family. Of the country's indigenous population, 92.6% is considered to be poor, with 81.3% living in extreme poverty. |
- 1.6 Guatemala has been beleaguered by internal armed conflict for over 30 years. One root of this conflict has been the divisions that have arisen between indigenous and nonindigenous (Ladino) groups and between rural and urban populations as a result of the severe inequalities in land and income distribution. This situation has been exacerbated by strong population growth, which has meant that broad segments of the citizenry have not been able to tap into the benefits of economic growth. The government and Unidad Revolucionaria Nacional Guatemalteca (URNG) have been conducting negotiations since the end of 1993 to bring an end to the conflict. The prospects for peace are good, and it is hoped that a final agreement will be reached in 1996.

^{2/} President Vinicio Cerezo's 1987 National Reorganization Program recognized the importance of setting up a social investment fund to cover a portion of the "social debt". Estimated at around US\$2 billion, this "social debt" was defined as the sum total of investments that had not been made in the social sectors (health, education, and housing); it was calculated as the difference - over a 10-year period - between the per capita social investment for Latin America as a whole and that of Guatemala, multiplied by Guatemala's population. The Social Investment Fund's current executive president, Rodolfo Paiz Andrade, played an instrumental role during the FIS's initial design stage, while he was Minister of Finance in 1987.

C. The Bank's strategy

- 1.7 The Bank's strategy for Guatemala for the period 1996-1998, as set out in the country paper, focuses on four areas: (i) inclusion of the poor, indigenous, and rural populations in the process of sustained development, (ii) expansion and improvement of social services, (iii) modernization of the State, and (iv) development and growth of private production sectors. The Bank's support for the Social Investment Fund is fully in line with this strategy, especially as a means of including the poor, indigenous, and rural populations in the process of sustained development.

D. The Social Investment Fund

1. Background

- 1.8 The Social Investment Fund [Fondo de Inversión Social] (FIS) was set up under legislation enacted on May 17, 1993. Its purpose is to raise the standard of living and improve the socioeconomic situation of population groups living in conditions of poverty or extreme poverty in Guatemala's rural areas. The FIS pursues its objective by empowering poor communities so that they may bring about comprehensive and long-lasting improvements in their living conditions. FIS programs so far have strengthened community organizations by involving them in the selection, design, and implementation of small-scale projects that have been funded on a nonreimbursable basis. With backing from the government, the Fund's new management has been building on this base to help community organizations play a more central role in managing FIS-funded projects and develop their capacity to independently manage their own productive activities and basic social and economic services. The FIS program is, then, one of the keystones of the government's action to alleviate the critical socioeconomic conditions described in paragraphs 1.2 through 1.6. 3/
- 1.9 The FIS is a decentralized government agency, with its own legal status and assets. It was set up for an eight-year period, and is the only social fund in Guatemala that is governed by separate legislation. The first board of directors took office in September 1993, and the first project was approved in March 1994. The FIS operates under special arrangements that exempt it from the standard public-administration regulations governing: (i) budget, (ii) staff hiring and remuneration, and (iii) contracts and procurement. The Fund is subject to review by the Comptroller

3/ Other actions include efforts to improve tax collection and channel more funding toward the social sectors, strengthening of the social sectors (with support from Bank operations in the areas of health and education), modernization of the State, and the pursuit of peace.

General's Office, internal and external audits, and audits by the agencies that provide its funding.

1.10 As of December 31, 1995, there were 3,605 projects in the Fund's pipeline; 87% of these projects had been added to the pipeline in 1995. The FIS approved average monthly investments of US\$1.9 million in 1995, as compared with only US\$300,000 per month between March and December 1994. Disbursements averaged US\$700,000 per month in 1995 (US\$1.2 million in the last quarter). The average FIS investment in a given project is around US\$13,000. Table 1.1 shows the number of projects approved through December 31, 1995, and the size of investments by core program. A fuller description of the Fund's four main areas of activity is presented in chapter II.

Table 1.1
FIS. PROJECTS AND AMOUNTS APPROVED
(cumulative through December 31, 1995)

ACTIVITY	PROJECTS APPROVED		AMOUNTS APPROVED (US\$000) (estimated at exchange rate of US\$1 = Q 5.50)				
	NUMBER	%	FIS	COMMUNITY	OTHER SOURCES	TOTAL COST	%
I. Social assistance	1,929	75.8	8,856	900	830	10,586	33.0
Health	199	7.8	1,380	150	144	1,674	5.2
Nutrition	133	5.2	629	160	2	791	2.5
Education	1,478	58.1	6,378	271	341	6,990	21.8
Job training	4	0.2	119	8	2	129	0.4
Literacy training	69	2.7	275	291	337	903	2.8
Development of EFIS groups and subsequent conversion	46	1.8	75	21	3	99	0.3
II. Social infrastructure	569	22.4	17,242	2,194	585	20,021	62.4
Health	7	0.3	205	16	11	232	0.7
Education	442	17.4	13,922	1,423	249	15,594	48.6
Job training	1	0.1	141	9	8	158	0.5
Latrines	10	0.4	222	19	14	255	0.8
Sanitary sewerage	1	0.1	20	11	1	31	0.1
Water supply	41	1.6	1,531	587	265	2,383	7.4
Environment	67	2.6	1,201	130	39	1,369	4.3
III. Socioeconomic infrastructure	18	0.7	667	161	28	856	2.7
IV. Productive activities	30	1.2	379	217	27	623	1.9
TOTAL	2,546	100	27,144	3,472	1,470	32,086	100
%			84.6	10.8	4.6	100.0	

Source: FIS monthly activity report for December 1995 (January 4, 1996).

- 1.11 The FIS received a startup contribution from the government in the amount of Q 50 million (US\$8.6 million). External funding was provided by the World Bank (US\$20 million), Kreditanstalt für Wiederaufbau (KfW) of Germany (DM 30 million, equivalent to approximately US\$17 million), and the Overseas Economic Cooperation Fund (OECF) of Japan (¥3,112 million, equivalent to approximately US\$30 million).
- 1.12 Owing to restrictions on the use of OECF funds (which may only be used for socioeconomic infrastructure and water and sanitation works) and the fact that the KfW and World Bank funds for 1996 have already been used up, the FIS will not be able to make any further investments in three of its four main investment areas during the second half of 1996. In fact, it has already begun limiting its investment initiatives for social assistance and socioeconomic infrastructure projects (except for water and sanitation).
- 1.13 An appraisal of a sample of projects visited during the analysis mission 4/ has produced the following conclusions:
- a. Project quality was high in all the projects visited.
 - b. There is community involvement in the projects from the very beginning, by means of the Social Investment Fund groups [Empresas del Fondo de Inversión Social] (EFIS groups) that are set up, as well as other community organizations whose purpose is to formulate, carry out, supervise, and ensure the continuity of the project.
 - c. It is still too early to assess the sustainability of completed projects since there are only a few that are more than six

4/ As part of the analysis mission and preparations for the annual progress review of the FIS/World Bank program, a RUTA-Social consultant visited 47 FIS projects. A total of 32 projects in nine different departamentos were visited during the analysis mission: (i) 12 schools, (ii) 5 water supply systems, (iii) 4 improved stove projects, (iv) 3 health care projects, (v) 2 small bridges, (vi) 2 training projects, (vii) 1 sewerage project, (viii) 1 small-scale irrigation project, (ix) 1 reforestation project, and (x) 1 community strengthening project. Subsequently, a series of visits were made to 15 other projects involving schools, water supply, and the building of latrines in the departamentos of Petén and Quiché. The project review covered: (i) level of community participation in project design, execution, and maintenance, (ii) evaluation of EFIS groups, (iii) project quality, (iv) operation and maintenance of works, (v) environmental impact, (vi) project use, and (vii) suggestions from the community on how to improve the quality of the FIS's work and procedures.

months old (as from the date they were turned over to the community). Still, no problems were detected in operation and maintenance, and the community organizations that have replaced the EFIS groups (which are disbanded once a project is completed) have been active in the operation and maintenance of project works. In some cases, fees have been charged to cover repairs.

- d. Effective project supervision is provided by external supervisors (experts hired by the FIS) who visit projects at least twice a month.
- e. No negative environmental impact was detected.
- f. As a result of the FIS investments, the FIS and the government generally have gained greater credibility and trust on the part of the community.

1.14 The following are the main recommendations (classified by area: organization, operations, and effectiveness) aimed at making FIS programs more effective and more efficient:

- a. Organization: move forward more quickly with the decentralization of FIS functions and resources to the regional offices; adopt a more comprehensive approach to projects (by linking complementary projects, e.g., water supply and sanitation); identify criteria that will help to ensure that the needs of the poorest population groups are met; and promote communication among all FIS staff, including supervisors.
- b. Operations: foster new alliances with NGOs and with the private sector, with an eye to further reducing the time taken to respond to requests from the community; give more attention to repairing existing infrastructure so as to keep costs down; follow up on completed projects; better publicize innovations and best practices; and raise the threshold for direct contracting, in order to reduce delays and to keep larger-scale projects from being divided up.
- c. Effectiveness: train community agents, who will identify projects and participate in their preparation; provide equipment (e.g. for water quality testing) and support (e.g. technical assistance, fee collection systems) to the communities; make sure that both future and current demand are taken into account when sizing a project; and cover pre-investment costs, especially in hard-to-reach areas.

1.15 The FIS has already scheduled a series of actions to address each of these points. Some of the problems have already been resolved; others will be dealt with through technical assistance under the IDB/FIS program or programs supported by other funding agencies.

- 1.16 With the armed conflict now at an end, the government has assigned the FIS an important role within its reconciliation program. With no differentiation between groups (e.g., people returning to their homes, people relocated to new areas, people who remained; warring and nonwarring factions), FIS programs - starting from a "blank slate" - are to help communities bring about reconciliation among groups that will now be working together for the benefit of all their members.

2. Accomplishments of the FIS

a. Investments in high-quality projects that benefit poor groups

- 1.17 Operating in an area basically untapped by the rest of the public sector, the FIS has been working actively with small contractors to invest in small-scale projects that benefit the country's poor population. The sample of 47 FIS projects visited as part of the analysis mission showed high project quality, appreciative beneficiaries, organized community committees set up for continuing project operation and maintenance, and no negative environmental impact.
- 1.18 FIS projects comply with targeting criteria that benefit Guatemala's poorest population. The FIS channels its funds to poor and extremely poor rural communities by means of a methodology which allocates resources to municipalities based on a poverty index that is weighted for the rural population.

b. Broad community participation in projects

- 1.19 Community participation is crucial at each stage of the project cycle. First, the community expresses its unmet needs to the FIS. The FIS, in turn, promotes direct community involvement by means of publicity and activities designed to inform the community about FIS objectives, programs, and procedures; it also offers training in project development. The community is then responsible for selecting and approving projects, and is fully knowledgeable about the details of each project and the investment therein.
- 1.20 With a view to ensuring active community participation in the project cycle, one of the most important features of the legislation that set up the FIS was to require that investments be channeled through a legally established entity. This entity may be in the form of: (i) a Social Investment Fund group (EFIS), made up of 20 or more members of the community who have been prepared and trained to participate in all stages of the project cycle; (ii) an NGO, or (iii) a municipal government. This legal mandate to establish EFIS groups has been a decisive factor in involving and

strengthening the community and ensuring the sustainability of FIS investments. 5/

- 1.21 The FIS has other procedures as well to ensure broad community involvement. Prospective executing agencies are required to make field visits, and in these cases the community is responsible for certifying that the visit was actually made. Also, for projects valued at less than Q 172,000, it is the beneficiary that chooses the executing agency; for projects over that amount, the community is invited to be present at the opening of the bids. Furthermore, the community is expected to contribute labor, materials, or cash to the projects (this contribution is equivalent to roughly 11% of the average cost of an FIS project). The community - through an EFIS group or some other legally established entity - also undertakes to ensure the project's sustainability, and is responsible for certifying that project supervisors have complied with the schedule of visits. Upon completion of a project, it is the community that certifies that the final product meets with its full satisfaction.
- 1.22 The FIS has also taken steps to ensure that indigenous groups are involved in its projects. It has bilingual promotion agents, supports bilingual education, and has promoted large-scale projects in indigenous areas. 6/ Over one half (54%) of the membership of the EFIS groups have been members of indigenous groups.

c. Expeditious, transparent, effective, and apolitical procedures

- 1.23 By dint of its experience with operations over the past three years (in such areas as project promotion, appraisal, management and control, and follow-up), the FIS was able to ensure the processing of a significant number of projects in 1995 in a way that was at once expeditious, decentralized, effective, efficient, apolitical, and transparent. The division of labor between the FIS and the private executing agencies has expedited the investment process, fostered private-sector participation, and reduced government bureaucracy.

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- 5/ One of the FIS's programs helps develop and support EFIS groups in: (a) project development, (b) formation and functions of a board of directors; (c) member rights and responsibilities, including project contributions in cash, in labor, or in kind, and (d) the obligation to maintain and operate projects. Under another program, communities receive guidance and training in how to convert an EFIS group once a project has been completed.
- 6/ To cite one example, the FIS has worked with an Education Ministry agency to set up over 80 community-run schools in the Mam area in San Marcos, and has been engaged in active promotion initiatives among Q'eqchi' communities in Alta Verapaz.

BOX 1. BEST PRACTICES

The FIS has launched several innovative projects that could be classified as 'best practice' showcases. The following three case studies outline some of these best practices which have fostered innovative approaches in social services.

1. The first project was designed to get parents involved in managing educational services; it was carried out in the *departamento* of San Marcos and received initial financing from the FIS for a one-year period. Under the program, parents formed an EFIS group and then received training in how to administer local educational services, including teacher hiring and remuneration, procurement of teaching materials, and teacher training. In all, over 80 new schools were set up in rural communities thanks to the action and funding of the FIS, and a commitment on the part of the Education Ministry — through its PRONADE program (National Program for Self-management in Educational Development) — to maintain these educational services after the one-year period. At the end of the FIS-support period, the EFIS groups were converted into education committees (COEDUCAs) that continue to oversee educational self-management, with support from the PRONADE program.
2. The second project, which was carried out in the *departamentos* of Alta Verapaz, Petén, and Quiché, offered training through an innovative method based on the principle of combined, intercultural schools and sponsored by the NGO Asociación Salesiana Don Bosco. The target population comprised over 400 teachers and student teachers who had been assigned to community-run rural schools. The goal of this innovative method is to bring about a radical improvement in the quality of rural education. The learning content is conceptual, instrumental, or practical, when the concept derives from experience. A bilingual teacher (in some cases, two) 'teaches' a single classroom made up of 50 to 60 students from all six primary-level grades. The teacher's role is limited to that of guide and facilitator, and the teaching materials are viewed as a guide to be used by the students, who sit at tables of six. An active, democratic approach is used in the teaching/learning process, with students forming groups on their own and choosing their own student body officers, which alternate on a rotating basis.
3. A third innovative project provided training by pairing up traditional midwives with health promoters. The project, which received assistance from the organization Talita Kumi (which is affiliated with Asociación Don Bosco), was carried out in rural Carchá and Chisec. The project is part of a broader program to supply medicinal products to community pharmacies.

3. Areas for future FIS action

a. Expansion of the investment program

- 1.24 The FIS's investment program is small compared with the current social needs of the country's rural population. ^{7/} In an effort to improve the prospects for attaining its objectives, the FIS has been looking at ways to expand its program without sacrificing any of the transparency, efficiency, community participation, or apolitical nature of its programs.
- 1.25 The FIS's 1996 investment program anticipates approvals on the order of US\$1.9 million per month from January to March (which is equivalent to the average monthly approval level in 1995) and US\$2.8 million per month from April on. This faster pace of approvals can be achieved if the FIS simplifies its procedures further, smooths out some bottlenecks, and takes specific steps with regard to: (i) the legal documentation required in order to establish the eligibility of socioeconomic and social-

^{7/} Expressed in terms of the target population (5 million rural poor), the FIS's overall program as presented here (with investments of roughly US\$134 million over a four-year period) works out to an average of US\$7 per capita per year.

infrastructure projects, (ii) further decentralization of the various stages of the project cycle and tying the field offices completely in to the FIS management information system, (iii) funding shortages in prototype projects that can be processed quickly, (iv) mobilization of new resources (e.g. at the municipal level) to finance such projects, and (v) expediting of preinvestment activities, bearing in mind the restrictions imposed by funding sources (KfW and OECF) that mainly finance projects requiring prefeasibility studies.

b. Furthering the government's decentralization policy

- 1.26 The FIS's new management has taken steps to shore up the Fund's role as a cornerstone of the government's decentralization policy. Thanks to its solid organizational structure, the FIS will contribute to the development of self-managing, sustainable communities, which will then become the central engines in reducing poverty and generating wealth. In this regard, the FIS would be making a bottom-up contribution to decentralization, one that flows from the communities to the central levels of the public sector.
- 1.27 This process is being implemented through: (i) training aimed at helping communities to move from a passive or reactive stance to a proactive one, (ii) organization of the community in such a way as to ensure that change flows from small, individual projects to become lasting structural transformations, by means of open and clear communications between communities and departmental, municipal, and national organizations, (iii) technical assistance to tap innovations and transfer appropriate technologies to communities, and (iv) financial support to better equip communities to develop and implement FIS-sponsored programs.
- 1.28 Especially important is FIS mobilization of municipal capital funding through procedures that are expeditious, transparent, efficient, apolitical, and enjoy broad community participation. ^{8/} Although the strategy for implementing this new role for the FIS was not to be developed until the first half of 1996, the executive president reached an agreement with the mayors of 330 municipalities, at a meeting held in February 1996, to give immediate attention to at least one project per municipality by investing three quetzales from the FIS for each quetzal cofinanced out of the municipal coffers.
- 1.29 To prepare itself for these new challenges, the FIS is looking for new ways to expand its program while maintaining the flexibility, transparency, efficiency, and broad community participation of its

^{8/} Under the Guatemalan Constitution, 10% of the national budget's ordinary revenue is earmarked for the municipalities. By the end of 1995, the FIS had been able to cofinance only 20 projects with municipalities.

activities. The development of new FIS methods will be supported by technical cooperation from the Bank and other financing agencies.

E. Lessons learned

- 1.30 Most of the investment programs financed by the Bank and other funding agencies in Guatemala have encountered difficulties at the execution stage. These problems have their roots in a weak, inefficient public sector that is severely limited in its capacity to design and carry out investment programs. Bureaucratic procedures are complex, they stand in the way of expeditious, transparent investments, and they complicate decision-making. The public sector's internal organization is often antiquated and inefficient; interagency coordination is weak; duplication of efforts and overlapping responsibilities are common among ministries and other agencies. As a result, it is especially important that investment programs be easy to implement and that they not place any undue burden on public institutions.
- 1.31 Despite initial concerns surrounding the FIS's slow (but solid) start, almost all the funds made available under the World Bank program have been committed. The World Bank operation supported the startup of FIS activities, simplification of procedures, institutional strengthening, and the building of a faster response capacity to community needs. When looking at the features of the present operation, the analysis mission concluded that the World Bank had rendered very valuable and very important technical and financial support to the FIS. Given the experience acquired by the FIS during its first three years of activity, the early results of its operations, and the urgent need to expand its scope, the analysis mission felt that an IDB-supported program should have greater flexibility. Rigidity in the area of poverty targeting (for instance, investment ceilings for each municipality, including allotments of less than US\$20,000 for some smaller municipalities) and in contracting (e.g., quotas per type of contracting arrangement, such as limits of US\$30,000 for direct contracting and US\$55,000 for shopping based on bids solicited from two companies) played a role in delays in program execution and investment restrictions in some of the poorer municipalities.

II. PROGRAM DESCRIPTION, COST, AND FINANCING

A. Objectives

- 2.1 The IDB/FIS program is designed to improve living conditions among Guatemala's poor rural population. To achieve that objective, the program will pursue two specific aims: (i) encourage community-based initiatives geared to forming sustainable civil society organizations, with an eye to strengthening their ability to manage their own production-related activities and basic social and economic services; and (ii) provide additional support - by means of socially oriented investments - to empower communities so they may make broad-based and lasting improvements to local living conditions.

B. Description

- 2.2 The program will fund projects aimed at improving the socioeconomic situation of Guatemala's poor rural population. There is also a component for financing associated costs and for institutional strengthening (mainly in the form of technical cooperation). The technical-cooperation activities for community empowerment, it should be noted, will play a significant role in ensuring the operation's success.

1. Investment projects (US\$40,138,000)

- 2.3 The eligibility criteria for this component are listed in the FIS's operations manual. Although some of the investment categories are recurrent in nature (e.g., short-term teaching contracts, dietary supplements, and initial supply of drugs for community pharmacies), the FIS will only provide financing for them on a temporary basis; the appropriate steps will be taken to ensure subsequent financing through community, municipal, or federal funding. ^{9/} Program funds will be used to finance investments in the four areas of the FIS's program, as described below.

a. Social assistance

- 2.4 Health care: health care facilities and equipment; disease prevention and control campaigns; training, outfitting, and organization of traditional midwives and health promoters; initial supply of drugs for community pharmacies; temporary hiring of health promoters and paramedics.

^{9/} Such financing is in line with the provisions set forth in paragraph 2.12(c) of the Eighth Replenishment document.

- 2.5 Nutrition: treatment for parasites; dietary supplements (specific nutrients); food and nutrition education; food supplements for children.
- 2.6 Early and primary education: furniture and equipment for schools; textbooks, instructional materials, and libraries; temporary hiring of teachers; preparation, training, and refresher courses for teachers and administrators; support for community-run education projects.
- 2.7 Job training: equipment; temporary hiring and training of instructors for job training centers.
- 2.8 General development: basic and advanced literacy programs; organization, development, and conversion of EFIS groups; funding for preinvestment projects.

b. Social infrastructure

- 2.9 This component will include projects in the areas of: construction of facilities for health care, education, and job training; water supply; sanitation (latrines, sewerage, and drainage); and the environment (forestation and reforestation, improved stoves, and public laundry facilities).

c. Socioeconomic infrastructure

- 2.10 Under this component, projects will be financed for building access roads, small bridges, small-scale irrigation systems, and bulking centers.

d. Production-oriented activities

- 2.11 The specific eligibility criteria for these activities have not yet been drawn up by the FIS. They will be agreed upon with the Bank prior to the use of Bank funds to finance any activities in this area, with technical-cooperation support being provided under the program in order to identify the appropriate criteria (see paragraph 2.17). The operation will not be used to finance credit, since this will be covered by another Bank project (focusing on microenterprise) that is currently in the preparatory stages. The Bank may, however, support such credit-related activities as technical assistance and training. An initial ceiling of US\$500,000 would be set for the financing of production activities overall, but could be revised as the FIS gains more experience with projects of this type.
- 2.12 The analysis mission expressed interest in the idea of supporting production-oriented projects that would directly generate income for beneficiaries. In its promotional efforts, the FIS has established that there is considerable demand for this kind of project.

e. Other projects

- 2.13 Subject to prior Bank approval, other projects could also be undertaken by the FIS in pursuit of its objective.

2. Program administration (US\$4,039,000)

- 2.14 Funding will be provided for all necessary costs associated with program administration during the execution period. Specifically, the loan will fund: (i) wages and payroll costs of some executives, technical staff, and support staff of the FIS, upon completion of the first World Bank loan (end of 1996); (ii) travel within Guatemala; (iii) vehicles and equipment. From the IDB funding, a total of US\$1,575,000 would go toward financing costs related to executives, technical staff, and support staff of the FIS; US\$232,000 for local travel; and US\$170,000 for vehicles and equipment. The payroll and local travel costs would be spread out over the project's four-year period, while the funding for vehicles and equipment would be concentrated in the first 2½ years. A detailed budget of staff, vehicle, and equipment costs is in the project files.

3. Institutional strengthening (US\$2,400,000)

- 2.15 Loan proceeds will be used to finance a total of US\$2.2 million in technical cooperation for various areas that the FIS has identified: (i) community empowerment (US\$2 million); (ii) drafting of eligibility criteria and design of prototypes for production-oriented projects (US\$50,000); (iii) strengthening of ministerial policies and standards (US\$50,000); (iv) strengthening of the project cycle (US\$50,000); and (v) implementation of a system for parallel monitoring of projects (US\$50,000).
- 2.16 In the area of community empowerment, the FIS requires technical cooperation in order to consolidate community participation in line with the first of the program's aims (see paragraph 2.1). The goal will be to enhance the communities' ability to develop and implement FIS-launched programs (Annex I contains the detailed program of this technical cooperation). Community-based capacity will be enriched and bolstered to enable them to carry out FIS-funded projects and also to empower them to: (i) communicate their needs to other agencies in the public sector and civil society; (ii) assume responsibility for managing investments with other groups; and (iii) most importantly of all perhaps, strengthen their ability to manage their own production activities and basic social and economic services. This will promote networking at both the individual and community level, broaden the universe of civil society organizations, and help to decentralize government activity. Between 15 and 20 of the poorest rural municipalities will receive technical cooperation in this area.

- 2.17 For programs involving production-oriented activities, specific eligibility criteria and prototype designs will be drawn up as part of the development phase. Bearing in mind the FIS's experience with village banking and the unmet demand for support for income-generating projects, consulting services will be hired to make recommendations as to activities in this area that could be financed out of Bank funds.
- 2.18 With regard to strengthening policies and standards at the ministerial level, some weak areas have been detected as concerns the exercise of these functions for the various sectors. Support would be provided to strengthen these functions for decentralized services in the areas of health, education, water supply, and sanitation. The ministries' technical teams would receive assistance in examining options for policies and standards and for making appropriate selections of these and of prototypes.
- 2.19 A decisive factor for the FIS's future growth will be the strengthening of the project cycle in order to identify bottlenecks and recommend appropriate remedial measures. Consulting services will be hired to provide support in this area.
- 2.20 Under the system for parallel monitoring of projects that is to be instituted, specific arrangements will be devised for monitoring the quality and impact of groups of projects and for carrying out program evaluations.
- 2.21 A portion of the loan proceeds would go toward financing the following activities: (i) visits to and by other social investment funds; (ii) participation in and organization of seminars; (iii) short-term consultancies; and (iv) FIS-organized seminars. The procedure would be as follows: (a) identification of possible topics; (b) preparation of proposals for visits, seminars, or consultancies, specifying terms of reference, expected outputs, and mission reports; and (c) yearly meetings to review the use made of these funds and to program future uses. As part of these activities and prior to the third annual review of the IDB/FIS program, an analysis will be conducted of the outlook for the FIS's future.

C. Program size

- 2.22 The size of the investment component was decided on the basis of: (i) the operating capacity of the FIS and of other groups involved in the project cycle (communities, NGOs, executing agencies, and city governments); (ii) actual demand within the community, as measured by the current pipeline of projects proposed; and (iii) a program sizing exercise that assumed the FIS would approve

US\$1.9 million in investments each month for January, February, and March 1996 and US\$2.8 million per month from April 1996 on. 10/

- 2.23 During calendar year 1995, funds were committed, on average, at the rate of 146 projects per month for a total of US\$1.9 million (figures based on Technical Committee approvals). This was considerably higher than in 1994, when roughly 81 projects were approved each month, with an average monthly value of US\$33,000 during the FIS's first 10 months of activity. Disbursements, too, were up considerably over 1994, going from US\$40,000 per month between March and December 1994 to a monthly average of US\$700,000 in 1995. (They averaged US\$1.2 million per month in the first quarter of 1996).
- 2.24 The decision to size this program at US\$47 million was based on the fact that the IDB loan's investment component (totaling US\$37.5 million) would be committed over a period of three years (from October 1996 through September 1999) and disbursed over four years (by September 2000). The local counterpart contribution will be equivalent to 10% of the total program budget.
- 2.25 Financing from the World Bank (the only source that provides funding for social assistance projects) and from the German agency KfW will be depleted in 1996, and the funds from OECF (Japan), which were first drawn on in 1996, will run out in 1998. The World Bank has expressed its willingness to consider a second loan for the FIS, which could cover the funding gap that will appear in late 1997. 11/ Table 2.1 shows the FIS's overall investment program for the period running from 1996 through the first nine months of the year 2000 (expected completion date of the IDB/FIS program).

10/ In fact, monthly commitments for the first three months of 1996 averaged US\$1.8 million. There was a drop following the change in FIS management in January, but the level then rose again in February.

11/ Other possibilities are a second operation with KfW, OECF, or the Bank.

Table 2.1
FIS investment program
1996-September 2000
(in millions of U.S. dollars)

	1996	1997	1998	1999	2000 (first 9 months)	Total 1/
1. Commitments	30.9	33.6	33.6	33.6	25.2	156.9
2. Subtotal: Identified sources	30.9	29.8	19.7	11.3	14.1	105.6
IDB/FIS program	2.0	9.5	9.5	9.5	7.0	37.5
World Bank	2.7					2.7
KfW	12.1					12.1
OECF	11.3	13.9	4.8			30.0
Local counterpart	2.8	6.2	5.4	1.8	7.1	23.3
3. Funding shortfall (1-2)	0.0	4.0	13.9	22.3	11.1	51.3

1/ Balances as at December 31, 1995, for World Bank, KfW, and OECF loans.

D. Costs and financing plan

- 2.26 Program costs will be financed in accordance with the following table:

Table 2.2
Cost table
(in thousands of U.S. dollars)

Category	IDB (OC/IFF)	Local counterpart	Total	%
Investment projects	37,500	2,638	40,138	85.40
Program administration	1,977	2,062	4,039	8.59
Institutional strengthening	2,400		2,400	5.11
Inspection and supervision	423		423	0.90
TOTAL	42,300	4,700	47,000	100.00
Percentage share	90	10	100	

- 2.27 To prevent any break in the FIS program as a result of funding shortages in the social assistance and social infrastructure categories, it is recommended that the Bank allow retroactive financing of eligible expenses under those two headings and under the institutional strengthening category in the amount of US\$1 million, provided such expenses have been incurred by the borrower within the six months preceding the date of the loan's approval by the Board of Executive Directors. The Bank will also recognize local contributions made during the same six-month period

as part of the local counterpart contribution, pursuant to paragraph 2.31, below.

1. Bank financing

2.28 The Bank's funds would be used as follows: (i) US\$37,500,000 (88.6%) to finance FIS investments in eligible programs that are part of the project pipeline; (ii) US\$1,977,000 (4.7%) for program administration; (iii) US\$2,400,000 (5.7%) for institutional strengthening; (iv) US\$423,000 (1%) for inspection and supervision. Proceeds of the loan would not be used for interest payments or for the credit fee.

2.29 The following terms and conditions would apply:

(i) Amount:	US\$42.3 million
(ii) Source:	OC/IFF
(iii) Terms:	
Commitment:	3 years
Disbursement:	4 years
Grace:	4 years
Amortization	30 years
(iv) Interest rate:	variable
(v) Credit fee:	0.75% on undisbursed balances
(vi) Inspection and supervision:	1% of loan amount

2.30 Since all the direct beneficiaries are members of low-income groups, it is proposed that financing be provided for 90% of the program's total cost. For the same reasons, the proposed amortization period is 30 years.

2. Local contribution

2.31 The local counterpart contribution has been estimated at the equivalent of US\$4.7 million (10% of the total). Operating expenses will be defrayed by the Guatemalan government out of the national budget. Pursuant to the FIS's procedures, the counterpart contribution for individual project financing will be provided, in part, by the beneficiaries. Contributions from beneficiaries - which include all direct contributions to FIS projects by beneficiaries, NGOs, and city governments - may be recognized as part of the local counterpart contribution up to 10% of the total cost of each project, provided such contributions are eligible for recognition under applicable Bank policy.

E. Performance indicators

- 2.32 The FIS has devised a series of key performance indicators (see Annex II) to measure important aspects in the following program-related areas between 1996 and 2001:
- a. global output targets (e.g., number and dollar amount of completed projects)
 - b. project cycle performance (e.g., number of projects processed at each stage of the project cycle)
 - c. FIS efficiency and bottlenecks (e.g., projects that run over cost, project delays and cancellations, overhead as a percentage of total cost)
 - d. targeting (e.g., approvals for group A and group B municipalities, as defined later in this proposal)
 - e. program beneficiaries (e.g., number of end beneficiaries and number of jobs created)
- 2.33 Using data from the management information system, the FIS will draw up annual progress reports that provide specifics on the levels achieved for each of these indicators.
- 2.34 With an eye to measuring project quality and maintenance, as well as the use made of projects by target beneficiaries, the FIS will set up a system that will provide parallel monitoring of projects. The system will compare ex ante appraisals with actual project results, and will compile user comments that might be helpful in updating project designs. The data obtained through the monitoring system will provide feedback at different stages of the cycle in order to enhance project promotion, design, use, and sustainability.

III. INSTITUTIONAL FRAMEWORK AND PROGRAM EXECUTION

A. Institutional framework

1. The borrower

- 3.1 The borrower will be the Republic of Guatemala, and program execution will be the responsibility of the Social Investment Fund (FIS). The government will transfer all loan proceeds and the local counterpart contribution to the FIS by means of a specific agreement drawn up for this purpose. Signature of this agreement will be a condition precedent to the first disbursement.

2. The executing agency

- 3.2 The Social Investment Fund [Fondo de Inversión Social] (FIS) is a decentralized public agency with its own assets and full legal status (see paragraphs 1.8 and 1.9).

3. Organization of the executing agency

- 3.3 The FIS's highest-level deliberative body is its board of directors, which is made up of an executive president and four directors, all of whom are appointed by the President of Guatemala; there has always been a member of an indigenous group on the FIS's board. Directors are appointed on the basis of their professional and administrative capabilities in the FIS's respective spheres of action. The board has the following principal functions: (i) approve the FIS's work plan, financial program, and sources of funding; (ii) approve the budget; (iii) approve and update the operations manual and regulations; (iv) issue rules and guidelines on payroll and staff administration.
- 3.4 The FIS has the following organizational structure:
- a. Senior management: board of directors, executive president, general manager, general counsel, external adviser, internal auditor, and the Technical Committee (made up of directors appointed by the board).
 - b. Project units: project promotion, appraisal, administration, supervision and follow-up, field offices, and local branches.
 - c. Support units: international cooperation, planning, public affairs, computer services, finance, and administration.

4. The project cycle and the project units

- 3.5 The project units lie at the heart of this program's execution, since they oversee - by means of procedures set out in the FIS's operations manual - the channeling of funds to poor rural communities.

a. Promotion

- 3.6 Establishing a project's eligibility is a four-step process that is carried out by the Promotion Office: (i) projects and needs are first identified and ranked by order of priority; (ii) their general eligibility is confirmed; (iii) the project is prepared; and (iv) specific eligibility is confirmed. Communities are responsible for identifying and ranking both their needs and the projects designed to respond to them. They must also identify which projects are eligible for FIS financing; they do this by applying the general criteria for project eligibility, feasibility, and approval that are set forth in the operations manual. These preselected projects are then prepared by the community with support from the FIS and other groups (mainly NGOs, executing agencies, municipal governments, and contractors), following the specific eligibility criteria outlined for each type of project in the FIS's project eligibility manual. If a project meets these criteria, it is declared to be eligible by the Promotion Office and is forwarded to the Appraisal Office for the next stage in the process.

b. Evaluation

- 3.7 Project evaluation, which is the responsibility of the Appraisal Office, is also a four-step process: (i) project documentation is checked; (ii) field visits are made; (iii) a technical analysis is done; (iv) a decision is issued on the project's feasibility, accompanied by a recommendation (approval or rejection). In the first step, documentation is checked to make sure the project file is complete and that all requirements for that type of project have been met. Once this is done, the evaluator visits the project site to corroborate and supplement data needed in order to confirm the project's eligibility, e.g., verify that beneficiaries are indeed poor rural residents and that they have a genuine need; community demand and contribution; physical feasibility of proposed works at the site planned; no overlapping of funding; and assurances of community maintenance and sustainability. Desk reviews will assess such features as the project's adequacy as a solution to the problem; technical specifications and design; project size vis-à-vis demand; legal validity of documentation; cost-effectiveness (as gauged by simulations run under the FIS's in-house costing system); social considerations; and cost-benefit analyses for projects that lend themselves to calculations of returns. The last step in the process is the issuing of the appraisal report, signed by the

evaluator and cleared by the director, ruling on the project's feasibility and recommending its approval or rejection.

c. Administration

- 3.8 The Administrative Office oversees the FIS's contracting procedures and lends support for the formation of Social Investment Fund groups (EFIS groups). Currently, five different project contracting procedures are in use, as agreed on with the World Bank and other FIS financing sources: (i) direct contracting - construction projects valued at less than US\$30,000; (ii) shopping - goods worth less than US\$30,000; (iii) shopping - construction projects valued at between US\$30,000 and US\$55,000; (iv) call for bids - goods valued at over US\$30,000; and (v) competitive bidding - construction projects valued at over US\$55,000. Unlike the other financing sources, the World Bank has set ceilings for each of these procurement categories.

d. Supervision and follow-up

- 3.9 The Project Supervision and Follow-up Office oversees and tracks projects' physical and financial progress, project quality, and compliance with contractual clauses. Supervision and follow-up activities are organized according to geographical location. Each geographic area is assigned to an area supervisor, who is responsible for all projects in that area. The area supervisors are assisted by outside supervisors who are hired for specific numbers of projects in each area.

e. Field offices and local branches

- 3.10 The field offices and local branches carry out a significant part of the work involved in project promotion, appraisal, and supervision and follow-up, expediting the project cycle and fostering community involvement at all stages.

B. Program execution

1. Investment component

- 3.11 Projects under the IDB/FIS program will be processed in accordance with the FIS's established arrangements and procedures (see paragraphs 3.5 through 3.9). This recommendation is based on: (i) a review of the procedures followed in the project cycle, and (ii) an analysis of the evaluations of 47 completed projects.

a. Targeting criteria

- 3.12 A basic feature of this program is that it is targeted at Guatemala's poor rural population. However, since individual poverty lines have not been calculated for the various municipalities, the FIS has adopted a funding approach based on unmet basic needs (as

determined by 1981 census data). First, a rural poverty incidence index was calculated for each of the country's 330 municipalities, according to: (i) housing quality, (ii) access to basic services such as water supply and sanitation, (iii) access to basic education (measured by enrollment ratios), and (iv) access to economic conditions that allow for an acceptable level of consumption (measured by the economic dependency ratio ^{12/}). A rural poverty indicator (RPI) was then calculated for each municipality, weighting the rural poverty index by the percentage of the rural population living in extreme poverty (according to the 1989 household survey). Based on this RPI, the municipalities were sorted into five groups, with group A being the ones suffering from most acute rural poverty. For targeting purposes, the FIS computed an indicative distribution of its resources by municipality, taking into account each municipality's RPI and its total rural population. Table 3.1, below, shows the amounts of FIS resources allocated and approved for the five groups as of December 1995.

Table 3.1
FIS projects and amounts approved by the Technical Committee,
by municipality group in descending order of priority, as of December 31, 1995

Priority	No. of municip.	Projects approved ^{f/}		Funding allocated ^{g/}		Funding approved ^{g/}		Approv./ Alloc.
		No.	%	Amount	%	Amount	%	
A ^{a/}	30	583	23%	39.2	19.1%	30.1	20%	77%
B ^{b/}	64	800	31%	63.0	30.7%	47.1	32%	75%
C ^{c/}	92	719	28%	64.9	31.6%	38.6	26%	59%
D ^{d/}	67	392	15%	28.9	14.1%	29.9	20%	103%
E ^{e/}	18	52	2%	9.2	4.5%	3.7	2%	40%
Total	271	2,546	100%	205.2	100.0%	149.3	100%	73%

^{a/} Extreme poverty (RPI over 60)

^{b/} Severe poverty (RPI between 45 and 60)

^{c/} Midpoint poverty (RPI between 30 and 45)

^{d/} Relative poverty (RPI between 20 and 30)

^{e/} Low poverty (RPI less than 20)

^{f/} Roughly 95% of projects approved are executed.

^{g/} Funds allocated and funds approved for 1995 (millions of quetzales).

- 3.13 The FIS/World Bank program set targeting criteria based on this indicative distribution of resources by municipality, and the analysis mission felt that the results of the apportionment of resources among poor areas were satisfactory. At the *departamento* level, there was a 74% correlation between planned distribution and actual FIS allocations. The sharpest deviations in the regression were in Alta Verapaz and Petén, two of Guatemala's poorest

^{12/} Defined as three or more dependents per income-earner in homes where the head of household is illiterate.

departamentos. In Alta Verapaz, actually, the deviation was positive: the FIS exceeded its targets thanks to the successful initiative of channeling its community work through a well-organized NGO. In Petén, however, the deviation was negative; Petén, it should be noted, covers a huge area (nearly one third of the country's land surface) and is very sparsely populated. Some of the poorer municipalities in the *departamentos* of Quiché and Huehuetenango have received small amounts of FIS funding, but most have benefited from FONAPAZ programs.

- 3.14 Despite a generally satisfactory distribution of funds in geographical terms, the analysis mission observed a series of problems with the rigid targeting criteria that the FIS uses at the municipality level: 13/ (i) ceilings on investments in each municipality resulted in FIS projects being interrupted in some of the poorer municipalities which had effective community organizations but whose social needs continued to be urgent, even after the FIS investments; (ii) the ceilings in some cases were less than US\$20,000, which is too low for some FIS projects; (iii) the FIS was not very active in some of the poorer municipalities which receive support from another social fund (FONAPAZ); (iv) since FIS investments cannot be subdivided, in some cases it has been difficult to find investments whose size matched the funds being assigned to a given municipality; and (v) rigid criteria kept the FIS from covering the unmet demand for investments in several rural poor areas.
- 3.15 Given the disadvantages of applying rigid targeting criteria while recognizing the importance of making sure that funds reach the country's poorest areas, the analysis mission has recommended that at least 20% of the IDB loan proceeds be targeted to group A municipalities and that at least 50% of these funds be targeted to group A and B municipalities. Additional promotion efforts also are needed to encourage investment in poorer municipalities. 14/ In the analysis mission's opinion, the FIS should not be required to adopt sector targeting criteria, aside from its annual investment program which is considered to be a useful

13/ Here it is worth noting that the FIS/World Bank program has relaxed these criteria. At present, only 75% of that program's funds are targeted strictly in accordance with the municipality-based distribution criteria.

14/ This effort will be a central part of the technical cooperation for community empowerment (see paragraph 2.16 and Annex I). With an eye to stepping up investments in the poorest municipalities, the Bank is working with the FIS to train community representatives in how to manage FIS-eligible investment projects. Under a joint initiative of the Government of Sweden, the FIS, and the Bank, approval was given in June 1996 for Swedish technical assistance to be provided for training representatives from four municipalities in the Chortí region (the Chortí are part of the Maya group).

management tool. ^{15/} The FIS and the Bank will both closely monitor the distribution of resources by municipality.

b. Annual investment plan

- 3.16 To show how program funds are being targeted by sector, as well as other sources of funding, the FIS will prepare an annual investment plan at the beginning of each year. The plan will take account of underserved group A and B municipalities, restrictions imposed by financing agencies, and actual project processing capacity at each stage. This would be an indicative plan, which would not entail any sort of shift from the FIS's demand-driven approach toward a centrally planned one. It can be updated as often as necessary to keep it consistent with the pipeline of investment requests at each stage of the project cycle. The plan will also be an important tool for measuring compliance with the targets set in the various performance indicators.

c. Program management and execution

- 3.17 Having examined the FIS's current contracting procedures and experience, the analysis mission recommends that there be more flexibility with regard to procurement thresholds. This would allow the FIS to expand its program, cut processing times, make better use of the services of project developers and executing agencies, and better serve Guatemala's more remote communities. The FIS controls its direct contracting costs by means of a system of costing simulations and prototypes.

^{15/} Impediments to a sector and municipality-based targeting of FIS funds would be as follows:

- (i) The Guatemalan government does not have any social plan that includes municipal-level data such as would enable the FIS to target its resources by sector.
- (ii) Owing to the lack of data at the municipal level, it is impossible to set priority criteria by sector or by municipality.
- (iii) From the standpoint of efficient assignment of resources, there is no justification for having the FIS prepare its own database just to have data available for targeting and assigning priority to investments by sector.
- (iv) The administrative costs of implementing a methodology of targeting by municipalities and by sector would be high.
- (v) Given the demand-driven approach of the FIS's investments, there would be no guarantee that the municipality or sector-based targeting would yield the desired results.

- 3.18 For construction work and project-related services (e.g., food supplements for children, literacy programs, temporary hiring of teachers, training and refresher courses for teachers and administrators, training in preparation for the conversion of EFIS groups), the IDB/FIS program will allow direct contracting - based on prices simulated by the FIS - for prototype investments up to US\$50,000 per project. It will also allow for shopping - based on quotations solicited from at least three companies - up to a maximum of US\$100,000 per project. When, owing to a project's specific nature, it is not possible to receive three bids, the FIS may seek clearance from the Bank for direct contracting or shopping with fewer than three bids. The program will provide for local competitive bidding for individual project investments up to US\$250,000. No provision has been made for the contracting of construction work or the purchase of project-related services for amounts over US\$250,000; in such cases, standard Bank procedures would be followed.
- 3.19 Whenever possible, the FIS will encourage the use of shopping or local competitive bidding for projects below these thresholds in the following circumstances: (i) when the project involves a standard design and has been requested by a community without involvement by a potential executing agency; (ii) when the FIS has defrayed the preinvestment costs of such projects and technical documentation (designs and specifications) is thus available to initiate shopping or local competitive bidding procedures.
- 3.20 For the purchase of goods and consulting services, the IDB/FIS program will allow for shopping up to US\$50,000 and local competitive bidding up to US\$200,000. It is not anticipated that any single procurement will entail over US\$200,000. Should this occur, however, standard Bank procedures would be followed.
- 3.21 For administrative services and for the technical cooperation for community empowerment, the procedures to be applied will be agreed upon with the Bank.

2. Interagency coordination

- 3.22 The FIS has signed interagency cooperation agreements with the following ministries: Food and Agriculture; Communications, Transportation, and Public Works; Education; and Public Health and Welfare. The FIS's work with these ministries and their line agencies is coordinated in different fashions: (i) the FIS may approach a ministry for investments that entail prototypes, standards, and authorizations; this approach is necessary in order to comply with standards and regulations and to ensure the

project's sustainability; ^{16/} (ii) ministries and line agencies can approach the FIS to seek funding for their programs; or (iii) the ministries and line agencies can approach the FIS to help implement programs that already have funding. From this standpoint, there is operational coordination between the FIS and the ministries. This coordination is visible mainly in the area of defining prototypes and compliance with standards.

3. Schedule for program implementation

- 3.23 It is proposed that program funds be disbursed over a four-year period, reckoned as of the effective date of the prospective loan agreement, with all funds to be committed within the three years following that same date. Approximately 25% of the loan proceeds will be disbursed during each of the four years of the program.

4. Supervision

- 3.24 The Bank's Country Office in Guatemala will be responsible for program inspection and supervision. The sector specialist will work closely with the FIS at all stages, including monitoring achievement of the operation's targets and objectives. The specialist will receive assistance and support from the rest of the project team.
- 3.25 During each year of program execution, a meeting will be held to review the program's progress, specifically: (i) progress made by the FIS in meeting the program's objective and purposes; (ii) degree of compliance with the targets contained in the key performance indicators; (iii) the FIS's success in promoting greater community and indigenous participation in its activities; (iv) success in targeting FIS resources to the poorest groups; (v) results of the parallel monitoring of completed projects; (vi) environmental impact of FIS projects; (vii) changes to the operations manual and FIS procedures; and (viii) experience with the thresholds for direct contracting and shopping.

5. Operating procedures

- 3.26 The FIS's operating procedures should be expeditious, efficient, transparent, and apolitical, based exclusively on technical merit.
- 3.27 The IDB/FIS program will be carried out pursuant to the procedures contained in the operations manual delivered to the Bank in January

^{16/} For instance, in order to build a school, the FIS must receive a document from the Ministry of Education stating that there are teachers for the school. For hiring teachers under temporary contracts, the FIS requires a document from the Ministry of Education certifying that the ministry will cover the teacher's wages on a permanent basis.

1996. Any changes to that manual will require the Bank's prior approval.

6. External auditing

- 3.28 The financial statements of the program and of the FIS are to be presented each year to the Bank's satisfaction, after having been certified by a firm of independent public accountants acceptable to the Bank. The statements are to be submitted within the 120 days following the close of the fiscal year ending on December 31, beginning on December 31, 1997, and continuing throughout the execution period.

7. Progress reports

- 3.29 During program execution, the FIS will submit semiannual reports to the Bank detailing the works financed, beneficiaries reached, procedures applied in the use of funding proceeds, findings of the audit of completed projects, as well as any remedial actions taken, including those concerning the environment. These reports are also to include information on progress made with institutional strengthening of the FIS. The recommendations of consultants hired with program resources are to be attached to the semiannual reports.

8. Tie-in with operation GU-0099

- 3.30 The program for community participation in the consolidation of peace (operation GU-0099) uses the strengthening of community organizations as a means of reconciling the heterogeneous groups that have been affected by the armed conflict, especially refugees, displaced persons, returning populations, and long-term residents. Unlike the FIS (which targets all of Guatemala's poor rural communities), GU-0099 focuses on those areas of the country that have suffered most from the armed conflict, i.e., the so-called ZONAPAZ area. Within ZONAPAZ, special attention would be given to the areas that have suffered most acutely.
- 3.31 The FIS has relatively little experience working with the target population of the peace consolidation program. It is hoped that the activities to be carried out under GU-0099 will facilitate the possibility of future cooperation between the heterogeneous groups in ZONAPAZ and agencies like the FIS.

IV. VIABILITY, DISTRIBUTIVE IMPACT, AND RISKS

A. Technical and socioeconomic viability

- 4.1 Judging from the findings and conclusions of a review of a sample of 47 completed projects (see paragraphs 1.13 through 1.15), the analysis mission found that FIS investments display an adequate level of technical viability. Projects were found to be of high quality, with broad-based community participation, effective supervision of implementation, satisfactory maintenance, and effective use by the communities.
- 4.2 As part of its project preparation process, the FIS requires that each project have an associated group or agency that is responsible for the project's operation and maintenance (see Box 2). Normally, this is a community group, an NGO, the municipal government, or a ministry. The FIS also makes sure that the institution has enough funding to guarantee project maintenance and sustainability. None of the 47 projects in the sample showed any operating or maintenance weaknesses (although it should be noted that few of them had been completed longer than six months).

Box 2. Sustainability of FIS Investments

To ensure that its financing goes only to sustainable projects, the FIS requires strict guarantees for the operation and maintenance of each activity included in its project menu. Here are some examples from three of the most common types of projects that are funded:

1. **Construction or refurbishment of schools.** In addition to a commitment from the Ministry of Education to ensure the school's operation and maintenance, project beneficiaries must set up a fund to defray the cost of maintaining furniture and equipment. The FIS also requires a certificate from the ministry indicating that a teacher (or teachers) are available for the school.
2. **Medical equipment and supplies.** The FIS requires assurances as to the operation of centers, including proof that staff has been paid during the preceding and the current year.
3. **Startup supply of drugs for community pharmacies.** The FIS requires a letter of commitment from the group or agency responsible for the project's maintenance and sustainability, including a system for tracking drugs, payments, and financial records.

An important part of these first experiences has been the role played by the communities in running and maintaining such projects.

- 4.3 The FIS assesses the socioeconomic viability of the projects it finances through desk reviews of project documentation and field visits. Using a cost-efficiency methodology that it has developed, the FIS establishes a project's optimal cost based on the unit prices of the various project inputs and activities, cross-checking against unit-cost files and costs of previous prototypes. Maximum allowances are set for variances between the simulated cost and the maximum cost requested. For socioeconomic-infrastructure and production projects (e.g., village banking), cost-benefit ratios

are also calculated and assessed, and cost-efficiency criteria are used in comparing investments of the same type.

B. Institutional and financial viability

- 4.4 The FIS's institutional viability is ensured by: (i) the expertise and experience of its professional and technical staff; (ii) the experience it has gained during its first three years of activity; and (iii) its operating independence. The FIS currently has staff trained in all stages of project processing for the investments covered by its 1996 program, including the necessary support staff and technical equipment. As well, all the operating, financial, and administrative rules have been implemented and the manuals finalized.
- 4.5 In terms of financial viability, the Government of Guatemala has shown its support for the FIS from the very beginning by making timely disbursements of budget funds to cover: (i) the counterpart to external investment funding, and (ii) the FIS's operating costs. It has allocated additional budget funding for 1996 (roughly US\$3 million). The funding commitments that have been requested in association with the present loan will guarantee that the FIS has the necessary counterpart funding available to carry out the program.

C. Environmental viability

- 4.6 The Bank's Environment Committee classified this as a Category III operation at its meeting of June 11, 1990, and subsequently reviewed and confirmed that classification on December 5, 1995. The environmental report - which was prepared by the FIS and approved by the Committee on February 27, 1996 - concluded that the environmental protection measures contained in FIS-funded projects were satisfactory, based on the experience of similar agencies elsewhere in Central America. The Committee made the following recommendations: (i) a review of the FIS's environmental protection measures should be included as part of the program review carried out during the first 18 months of the loan; and (ii) also as part of that review, assess how effective the FIS is in working with indigenous groups and how indigenous communities benefit from FIS projects. It was also suggested that the program fund a seminar aimed at indigenous groups, FIS management, and NGOs for the purpose of opening channels for more direct dialogue with indigenous groups concerning their needs and the applications they submit to the FIS. The findings of the seminar would be part of the general framework for assessing the program's overall progress.
- 4.7 Ever since its startup, the FIS has had an environmental protection and promotion system in place. The system classifies projects into one of three categories according to their environmental impact: (i) category A projects have a negative environmental impact and require a study to determine the necessary remedial measures;

(ii) category B projects have less of an impact, but still require remedial measures; (iii) category C projects have no negative environmental impact and, accordingly, require no remedial measures. A project's environmental impact is assessed during the project promotion and appraisal phases. The Promotion Office makes sure that the financing request includes an environmental classification and that the project design incorporates the necessary remedial measures. Later on, as part of the feasibility analysis, the Appraisal Office checks during its field visits and desk reviews to see if projects having a negative environmental impact are, indeed, making provision for the necessary remedial measures.

- 4.8 The analysis mission has reviewed the evaluation criteria for prospective projects under the program and, based on a sample of those projects, has ascertained that the FIS is complying with the environmental procedures contained in its operations manual. The FIS furnishes project beneficiaries with information on environmental impact and the necessary remedial measures. The projects to be financed under the program are mostly small-scale and their environmental impact is limited. The environmental projects that are in the social infrastructure pipeline (forestation and reforestation, improved stoves, and public laundry facilities) have been specifically designed to upgrade the environment. The health and education infrastructure projects (which include latrines) will enhance residents' quality of life as a result of the specific waste-management measures. The sanitation projects will help to curb pollution and upgrade the environment. The water-supply systems will help to control flooding and leakage and protect watersheds.

D. Impact on women and children

- 4.9 According to the FIS's management information system, women and children accounted for 81.2% of FIS project beneficiaries as of January 24, 1996. Several of the FIS's programs target women and children (although not exclusively), since these are the most vulnerable subgroups among the poor population (see paragraphs 2.4-2.11).

E. Program benefits and risks

1. Benefits

- 4.10 This program will help to: (i) ensure that the basic needs of Guatemala's poor and extremely poor rural population are better met; (ii) strengthen the capacity of poor communities to manage their own productive activities and basic social and economic services; (iii) protect and upgrade the environment; and (iv) generate community-based initiatives aimed at national reconciliation. Since indigenous groups make up more than one half the country's rural population (and bearing in mind that almost all of the rural indigenous population lives in poverty) and since

indigenous groups are very involved in FIS activities (see paragraph 1.22), the project is expected to yield significant benefits for these groups.

2. Risks

a. Community empowerment

- 4.11 Although the basic methodology that will be used for technical cooperation in this area (see Annex I) has been tested in Guatemala ^{17/} and elsewhere, ^{18/} the FIS itself has little experience with this methodology. However, it does have broad experience working with community organizations, mainly in the design and implementation of the investments it finances. With an eye to strengthening the FIS's ability to foster self-management of development at the community level, the project team expects to work closely with the FIS during the technical cooperation.

b. Overlapping of social funds

- 4.12 Guatemala's social funds were set up by the government mainly for the purpose of providing a rapid response to the country's most pressing social needs. However, several of these funds (e.g., FONAPAZ, FSDC, FODIGUA, FIS) have similar programs and overlapping target populations. Although the legislation establishing the FIS specifically states that there is to be coordination with other public-sector agencies, in practice such coordination is difficult owing to the decentralized, autonomous nature of the funds. There is, therefore, the risk of duplication of investments and, consequently, inefficient resource allocation. There is also some duplication in the funds' operating costs. In light of this situation, the analysis mission recommended to the government that it: (i) review the need to maintain all of these funds, and (ii) establish coordination among the funds by formally publicizing information on projects being developed and by keeping project pipelines up to date. The government has expressed concern with the duplication of efforts between social funds and has announced that it intends to define the roles of these funds - for both the

^{17/} Two recent experiences are: (i) the Development Program for Displaced Persons, Refugees, and Repatriated Persons in Central America (PRODERE), active mainly in areas beset by conflict in Guatemala, and (ii) the Cultural Affairs Institute of Sanarate, in El Progreso (see Instituto de Asuntos Culturales, *Asesoramiento para proyectos participativos en el Municipio de Sanarate, El Progreso*, 1994 and 1996).

^{18/} Several examples are discussed in Reinhard Goethert and Nabeel Hamdi, *La Microplanificación. Un Proceso de Programación y Desarrollo con Base en la Comunidad* [Microplanning. A Process of Community-based Programming and Development], World Bank Economic Development Institute, 1992.

present and the future - as part of its overall social policy. A framework for coordinating the funds' work was set up recently within the Office of the Vice President and includes a mandate to review these roles and make recommendations on how the funds should be restructured, if necessary.

c. Weaknesses in the public sector

- 4.13 As a rule, the ministries and line agencies that have worked the most with the FIS have been the ones with the least funds available for financing FIS programs. Even with the interagency coordination arrangements (see paragraph 3.22), the ministries have not been able to formulate comprehensive policies and standards. As a result, there is little information available on sector plans and no clear guideposts for the State's role in the FIS's target sectors. With a view to remedying this situation, the IDB/FIS program includes technical cooperation to strengthen these ministry functions. The Bank, aware of the importance of addressing weaknesses in the public sector, currently has one program under way (in the health sector) and three in preparation (one for modernization of the State and two in the education sector) that are looking for ways of either strengthening the public sector or transferring some of its functions to the private sector.

COMMUNITY EMPOWERMENT PROGRAM

I. BACKGROUND

- 1.1 As mentioned in the attached loan document, the FIS is currently working in the area of strengthening community organization and boosting productive capacity at the community level.
- 1.2 The technical cooperation program described below is designed to support the FIS's efforts in this area.
- 1.3 To better ensure that the operation's objectives and goals are attained, it will be carried out by a coordination unit to be located within the FIS's structure and endowed with operating independence; it will be small in size, able to respond expeditiously, efficient, and effective.

II. PROGRAM OBJECTIVE AND DESCRIPTION

A. Objective

- 2.1 The objective of this technical cooperation is to support the FIS in its goal of empowering local communities and fostering a culture of self-management that will advance the process of sustainable development in Guatemala.
- 2.2 With a view to attaining that objective, the technical cooperation has been designed to be carried out over a four-year period, at a cost of US\$2 million.
- 2.3 The cooperation will strengthen the FIS to better perform the following activities:
 1. identify needs and devise appropriate solutions
 2. assign priority to activities that will help strengthen communities
 3. oversee the processes related to these activities
 4. promote initiatives aimed at strengthening communities
 5. administer and mobilize financial, technical, and human resources for the benefit of the community

6. share information on experiences and accomplishments with other communities, with an eye to ensuring comprehensive strengthening at the grassroots level and, for the future, channels of communication with government and civil society.

B. Target population

- 2.4 The target population will be made up of 15 to 20 rural municipalities. Ideally, they should be contiguous but encompass different regions.
- 2.5 The FIS will use the following criteria in selecting these municipalities:
 1. poverty level (activities will focus on group A and group B municipalities)
 2. lack of similar efforts under other programs
 3. interest of community groups and municipal authorities in participating in the program.

The FIS will take steps to make sure that technical cooperation is provided to municipalities that include both indigenous and nonindigenous populations.

C. Activities

- 2.6 In order to attain the aforementioned objectives, specific activities will need to be carried out at three different levels:
 1. community
 2. microregion (groups of communities within a given municipality)
 3. municipality
- 2.7 With a view to laying the foundations for sustainable community-based development, technical cooperation will focus on promoting community organization. If all the stated objectives are to be achieved, however, the operation will also need to bring in other players in the respective communities, such as local NGOs, other social investment funds, ministries, municipal authorities, and church-sponsored social programs.

2.8 The operation will be carried out in three phases:

1. Phase 1: Preparation and initial training

Activities during this phase will concentrate on the following areas:

- a. identification of prospective participating groups and agencies at the municipal level
- b. community forums with residents in each community
- c. town meetings with representatives of groups/agencies and villages located within and outside the municipality
- d. training courses on how to identify needs and rank them by order of priority
- e. preparation of a series of community-based miniplans arising from these activities.

2. Phase 2: Project preparation and implementation

Work and courses during this phase will cover the following areas:

- a. preparation of profiles for social, production-related, and infrastructure projects
- b. contracting of technical assistance and identification of sources of financial support
- c. supervision, execution, and maintenance of works projects.

3. Phase 3: Consolidation and follow-up

This phase will cover the following activities:

- a. meetings to share experiences among communities, microregions, and municipalities
- b. community forums and town meetings to review and update action plans
- c. training in participatory methods with local leaders
- d. documentation of local experiences.

III. COSTS

3.1 The following table presents a summary of the costs for this technical-cooperation operation:

Cost item	Cost (US\$)
1. Payroll	875,000
2. Equipment	20,000
3. Vehicles	20,000
4. Supplies	50,000
5. Activities (field work)	385,000
6. Per diems	130,000
7. Evaluation/dissemination	80,000
8. Training	40,000
9. Contingencies	400,000
TOTAL	2,000,000

3.2 The following paragraphs present details on each budget item.

1. Payroll

3.3 This category covers the costs associated with the team that will be in charge of project execution:

	<u>US\$</u>
General coordinator (48 months + 8 months bonus)	140,000
Operations coordinator (48 months + 8 months bonus)	116,000
Secretary (48 months + 8 months bonus)	47,000
Accountant (48 months + 8 months bonus)	47,000
6 promotion agents (48 months + 8 months bonus)	350,000
6 promotion agents (24 months + 4 months bonus)	<u>175,000</u>
Total	US\$875,000

2. Equipment

3.4 This heading covers four computers, a printer, and office furniture for the project team.

3. Vehicles

- 3.5 Under this category, financing will be provided for the purchase of 12 motorcycles, to be used by the promotion agents in working with the communities.

4. Supplies

- 3.6 This covers the purchase of materials and supplies for the coordination unit and for field work.

5. Activities

- 3.7 Financing will be provided for field work related to the strengthening of community organizations (assuming that the program will be carried out in 15 municipalities, with an estimated 80 communities per municipality and four communities per microregion). Costs are as follows:

<u>Phase 1</u>	<u>US\$</u>
Community forums (1,200 x US\$50)	60,000
Town meetings (30 x US\$300)	10,000
Microregion courses (300 x US\$200)	<u>60,000</u>
Subtotal	130,000

<u>Phase 2</u>	
Technical assistance for project preparation (450 projects x US\$200)	90,000
Procurement of funding (300 communities x US\$200)	<u>60,000</u>
Subtotal	150,000

<u>Phase 3</u>	
Exchanges between microregions (60 x US\$300)	18,000
Town meetings (30 x US\$300)	9,000
Municipal-level exchanges (30 x US\$1,000)	30,000
Microregion training (120 x US\$200)	24,000
Documentation of local experiences	<u>24,000</u>
Subtotal	105,000

Total	US\$385,000
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6. Per diems

- 3.8 Per diems and travel expenses will be covered for the field work of the two coordinators and the promotion agents.

	<u>US\$</u>
General coordinator (US\$17 per day)	7,000
Operations coordinator (US\$17 per day)	12,000
Promotion agents (US\$17 per day)	<u>111,000</u>
Total	US\$130,000

7. Evaluation and dissemination

- 3.9 Funding will be provided for evaluation, documentation, and dissemination of information on experience gained under the technical-cooperation program.

8. Training

- 3.10 Program funds will be used to cover initial and ongoing training for the team.

9. Contingencies

- 3.11 Given the innovative nature of this technical assistance and the difficulty in estimating exact costs in advance, it was decided that 20% of the financing should be set aside to cover contingencies.

IV. PROGRAM EXECUTION AND ADMINISTRATION

- 4.1 The FIS, through the executing unit for this program, will be responsible for hiring all necessary field staff and consultants, as well as for the necessary coordination and contacts with public and private agencies and local groups in connection with the various tasks to be carried out under the program.
- 4.2 Once the Bank has approved the respective terms of reference, the FIS will hire qualified individuals to carry out the program. The general coordinator will be responsible for hiring the staff members who will make up the team.
- 4.3 The FIS, through the program coordination unit, will be responsible for submitting the annual work plan and any necessary reports to the Bank, as well as for the proper operation of the program. The coordination unit will be responsible for drafting an operations manual aimed at expediting program execution.

V. CONDITIONS PRECEDENT TO THE FIRST DISBURSEMENT

5.1 As a condition precedent to the first disbursement of the technical-cooperation funds, the FIS is to submit the following to the Bank:

1. evidence that the coordination unit has been set up and is operating
2. presentation of the plan of operations for the first year of program execution
3. presentation of the operations manual

**SOCIAL INVESTMENT FUND
KEY PERFORMANCE INDICATORS FOR 1996-2001**

INDICATOR	SOURCE	PURPOSE	1996	1997	1998	1999	2000	
No. of subproject requests that meet eligibility criteria	Promotion Office's subproject database	Determine actual demand for financing and assess FIS's promotion capacity	1,750	1,800	2,000	2,200	2,200	
Dollar total of subproject requests that meet eligibility criteria	Promotion Office's subproject database	Determine actual demand, funding capacity, and promotion capacity of the FIS	US\$43.1 mill.	US\$45.0 mill.	US\$50.0 mill.	US\$55.0 mill.	US\$55.0 mill.	
No. of eligible subprojects per promotion agent	Promotion Office's subproject database	Ensure that Promotion Office has appropriate human resources	175	175	200	200	200	
No. of subprojects appraised	Appraisal Office's subproject database	Determine the FIS's appraisal capacity	1,425	1,600	1,850	2,140	2,140	
Dollar total of all projects appraised	Appraisal Office's subproject database	Determine FIS's appraisal capacity	US\$35.6 mill.	US\$40.0 mill.	US\$46.0 mill.	US\$53.5 mill.	US\$53.5 mill.	
Total FIS funding of all projects appraised	Appraisal Office's subproject database	Gauge FIS funding requirements for investments, determine FIS's appraisal capacity	US\$30.2 mill.	US\$34.0 mill.	US\$40.0 mill.	US\$45.5 mill.	US\$45.5 mill.	
No. of subprojects appraised per evaluator	Appraisal Office's subproject database	Ensure that Appraisal Office has appropriate human resources	150	150	150	200	200	
No. of subprojects approved	Appraisal Office's subproject database	Determine project processing capacity; compare projects approved to projects appraised	1,250	1,450	1,700	1,950	1,950	
Dollar total of all projects approved	Appraisal Office's subproject database	Determine project processing capacity; compare amounts for projects approved and projects appraised	US\$34.5 mill.	US\$38.0 mill.	US\$42.0 mill.	US\$48.0 mill.	US\$48.0 mill.	
Percentage of FIS funding in projects approved for group A municipalities	Appraisal Office's subproject database	Determine the effectiveness of FIS investments, and verify compliance with institutional mandate	20%	20%	20%	20%	20%	

INDICATOR	SOURCE	PURPOSE	1996	1997	1998	1999	2000	
Percentage of FIS funding in projects approved for group A and B municipalities	Appraisal Office's subproject database	Determine the effectiveness of FIS investments, and verify compliance with institutional mandate	50%	50%	50%	50%	50%	
No. of approved subprojects that are cancelled	Appraisal Office's subproject database	Determine the capacity and quality of FIS project processing	30	35	40	40	50	
No. of subprojects contracted	Administrative Office's subproject database	Determine the Administrative Office's project processing capacity, compare projects contracted to projects approved	1,150	1,375	1,600	1,850	1,875	
Dollar total of all subprojects contracted	Administrative Office's subproject database	Determine the Administrative Office's project processing capacity, compare amounts for projects contracted and projects approved	US\$32.75 mill.	US\$34.2 mill.	US\$40.5 mill.	US\$46.5 mill.	US\$47.0 mill.	
No. of projects contracted for amounts more than 10% over cost determined in the appraisal process	Administrative Office's subproject database	Evaluate estimates of Appraisal Office's costing system	150	150	175	175	175	
No. of subprojects contracted per administrative officer	Administrative Office's subproject database	Ensure that Administrative Office has appropriate human resources	250	250	275	300	300	
No. of subprojects started	Supervision and Follow-up Office's subproject database	Determine project processing capacity of Administrative/Financial Office and Supervision/ Follow-up Office, compare projects started to projects approved/contracted	1,025	1,225	1,600	1,800	1,800	
Dollar total of all subprojects started	Supervision and Follow-up Office's subproject database	Determine project processing capacity of Administrative/Financial Office and Supervision/ Follow-up Office, compare amounts for projects started and for projects approved/contracted	US\$29.0 mill.	US\$30.6 mill.	US\$40.0 mill.	US\$45.0 mill.	US\$45.0 mill.	

INDICATOR	SOURCE	PURPOSE	1996	1997	1998	1999	2000	
No. of subprojects simultaneously under way each month, per supervisor	Supervision and Follow-up Office's subproject database	Determine Supervision and Follow-up Office's processing capacity for different project types	Equipment: 20 Social and production-oriented: 15 Infrastructure: 8	Equipment: 20 Social and production-oriented: 15 Infrastructure: 8	Equipment: 20 Social and production-oriented: 15 Infrastructure: 8	Equipment: 20 Social and production-oriented: 15 Infrastructure: 8	Equipment: 20 Social and production-oriented: 15 Infrastructure: 8	Equipment: 20 Social and production-oriented: 15 Infrastructure: 8
No. of subprojects simultaneously under way, per area supervisor	Supervision and Follow-up Office's subproject database	Ensure that Supervision and Follow-up Office has appropriate human resources	Equipment: 250 Social and production-oriented: 150 Infrastructure: 80	Equipment: 250 Social and production-oriented: 150 Infrastructure: 80	Equipment: 250 Social and production-oriented: 150 Infrastructure: 80	Equipment: 250 Social and production-oriented: 150 Infrastructure: 80	Equipment: 250 Social and production-oriented: 150 Infrastructure: 80	Equipment: 250 Social and production-oriented: 150 Infrastructure: 80
No. of in-progress subprojects taking longer than originally planned	Supervision and Follow-up Office's subproject database	Determine Supervision and Follow-up Office's project processing capacity	125	125	150	175	175	
Cumulative no. of subprojects suspended due to noncompliance by executing agency	Supervision and Follow-up Office's subproject database	Determine Appraisal, Administrative, and Supervision/Follow-up Offices' efficiency and quality of processing	50	50	75	75	75	
No. of subprojects completed	Supervision and Follow-up Office's subproject database	Determine project processing capacity of Administrative/Financial and Supervision/Follow-up Offices, compare projects completed to projects approved/contracted/started	925	1,100	1,480	1,710	1,710	
Dollar amount of all subprojects completed	Supervision and Follow-up Office's subproject database	Determine project processing capacity of Administrative/Financial and Supervision/Follow-up Offices, compare total amount for projects completed and projects approved/contracted/started	US\$26.0 mill.	US\$27.5 mill.	US\$37.0 mill.	US\$42.75 mill.	US\$42.75 mill.	
No. of projects completed with costs running more than 10% over cost determined during contracting process	Supervision and Follow-up Office's subproject database	Determine the number of projects requiring reallocations owing to cost overruns, provide feedback for estimates made by Appraisal Office's costing system	125	125	150	175	175	

INDICATOR	SOURCE	PURPOSE	1996	1997	1998	1999	2000	
Average execution time of completed projects	Supervision and Follow-up Office's subproject database	Determine FIS project processing capacity, and assess compliance by executing agencies		Infrastruct.: 6 mos. Equipment: 5 mos. Social: 9 mos.	Infrastruct.: 6 mos. Equipment: 5 mos. Social: 9 mos.	Infrastruct.: 6 mos. Equipment: 5 mos. Social: 9 mos.	Infrastruct.: 6 mos. Equipment: 5 mos. Social: 9 mos.	Infrastruct.: 6 mos. Equipment: 5 mos. Social: 9 mos.
Total FIS disbursements	Finance and Administration Office's subproject database	Determine FIS's annual execution levels and investment capacity	US\$33.6 mill.	US\$33.6 mill.	US\$33.6 mill.	US\$35.0 mill.	US\$35.0 mill.	
Average monthly FIS disbursements	Finance and Administration Office's subproject database	Determine FIS's monthly execution levels and disbursement capacity	US\$2.8 mill.	US\$2.8 mill.	US\$2.8 mill.	US\$2.9 mill.	US\$2.9 mill.	
No. of project close-outs	Finance and Administration Office's subproject database	Determine project processing capacity of Administrative/Financial and Supervision/Follow-up Offices, and compare project close-outs to projects completed	760	940	1,320	1,540	1,540	
Dollar amount of all subprojects closed out	Finance and Administration Office's subproject database	Determine project processing capacity of Administrative/Financial and Supervision/Follow-up Offices, and compare amounts for project close-outs to projects completed	US\$22.0 mill.	US\$23.5 mill.	US\$33.0 mill.	US\$38.5 mill.	US\$38.75 mill.	
No. of subprojects taking more than 30 days for processing between declaration of eligibility and field visit	Promotion and Appraisal Offices' subproject database	Determine Appraisal Office's project processing capacity	250	250	250	250	250	
No. of subprojects taking more than 45 days for processing between field visit and approval by Technical Committee	Appraisal Office's subproject database	Determine Appraisal Office's project processing capacity	250	250	250	250	250	

INDICATOR	SOURCE	PURPOSE	1996	1997	1998	1999	2000	
No. of subprojects exceeding following cut-off points for interval between Technical Committee approval and contract signature: 30 days for direct contracting, 70 days for shopping on construction work, 120 days for bidding on goods, 130 days for bidding on construction work	Administrative Office's subproject database	Determine Administrative Office's project processing capacity	200	200	250	250	250	
No. of subprojects taking more than 21 days to process between contract signature and startup	Supervision and Follow-up Office's subproject database	Determine project processing capacity of Administrative/Financial and Supervision/Follow-up Offices	125	125	250	250	250	
Overhead as a percentage of total costs (disbursements for investment)	Finance and Administration Office's subproject database	Determine efficiency of FIS project processing	10%	8%	8%	8%	8%	
Person-months of employment generated	Project system database	Determine number of person-months of work generated directly and indirectly by project financing	70,000 person-months	72,000 person-months	77,500 person-months	82,250 person-months	82,250 person-months	p
End beneficiaries of FIS investments	Project system database	Determine size of target population to benefit from FIS investments	2.75 million persons	2.9 million persons	3.2 million persons	3.4 million persons	3.4 million persons	

RGII-GU046P
GU-0071
Original: Spanish

PROPOSED RESOLUTION

**GUATEMALA. LOAN No. ____/OC-GU.
(Social Investment Fund Project)**

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank as administrator of the Intermediate Financing Facility Account, hereinafter referred to as the "account", to enter into such contract or contracts as may be necessary with the República de Guatemala, as Borrower, and to adopt other pertinent measures to use the resources of the account to pay a part of the interest due by the Borrower on outstanding balances of the loan authorized in the Resolution DE- / , in accordance with the provisions set forth in Document FN-263-2, as amended, approved by the Board of Executive Directors on December 21, 1983.

RGII-GU045P
GU-0071
Original: Spanish

PROPOSED RESOLUTION

GUATEMALA. LOAN ___/OC-GU TO THE REPUBLICA DE GUATEMALA
(Social Investment Fund Project)

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the República de Guatemala, as Borrower, for the purpose of granting it a financing to cooperate in the execution of a Social Investment Fund Project. Such financing will be for the amount of up to Forty-Two Million Three-Hundred Thousand dollars of the United States of America (US\$42,300,000) or its equivalent in other currencies, except that of Guatemala, which are part of the Ordinary Capital resources of the Bank, and will be subject to the "Special Contractual Conditions" and the "Terms and Financial Conditions" of the Executive Summary of the Loan Proposal.